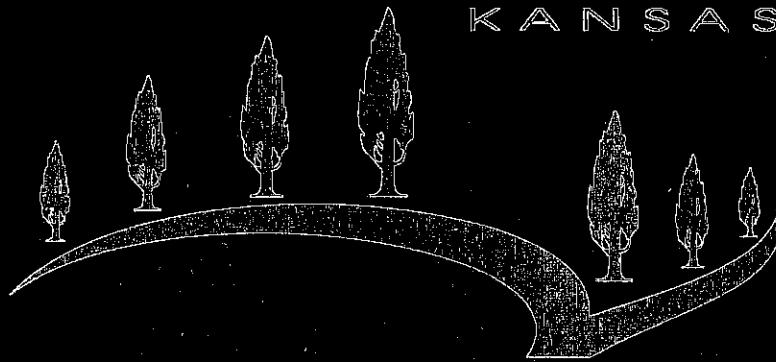


CITY OF
GARDNER
KANSAS



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended
December 31, 2005

CITY OF GARDNER, KANSAS

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

Prepared by:

Finance Department
City of Gardner, Kansas

CITY OF GARDNER, KANSAS

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

Year Ended December 31, 2005

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CITY OF GARDNER, KANSAS

COMPREHENSIVE ANNUAL
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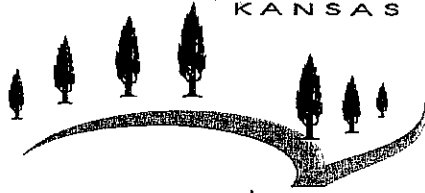
CITY OF GARDNER, KANSAS

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FINANCE

June 16, 2006

120 E. Main, Gardner, Kansas 66030 (913) 856-7535

The Honorable Mayor, City Council, Citizens,
Taxpayers, and Other Interested Parties of the
City of Gardner, Kansas:

The Comprehensive Annual Financial Report (CAFR) of the City of Gardner (the City) for the fiscal year ended December 31, 2005 is hereby submitted. This is the second year that the City has prepared a CAFR, and staff has submitted this CAFR for a Certificate of Achievement for Excellence in Financial Reporting with the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report that conforms to program standards. The CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for one year only. We believe this report conforms to the Certificate of Achievement program requirements.

The report was prepared by the City's Finance Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the government. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in three sections:

Introductory
Financial
Statistical

The Introductory Section includes this transmittal letter, the City's organizational chart, and a list of principal officials.

The Financial Section includes the independent auditors' report, management's discussion and analysis (MD&A), government-wide financial statements, fund financial statements, notes to the financial statements, and individual and combining statements and schedules. MD&A provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

—The Statistical Section includes selected financial and demographic information, presented in a 10-year historical format.

PROFILE OF THE GOVERNMENT

The City of Gardner was established on March 16, 1858 and came under the jurisdiction of the State of Kansas in 1861. The City was incorporated as a Municipal Corporation of the third class in January 1887 and as a Municipal Corporation of the second class in December 2002. The City is located in Johnson County, Kansas, along Interstate 35, about 30 miles southwest of downtown Kansas City, Missouri. Johnson County, Kansas is considered to be the top growth area in the state, and one of the top growth areas in the country. Because of Gardner's location on the edge of the Kansas City metropolitan area, it serves as a suburban rural living area for individuals employed in the metropolitan area and also continues to serve the surrounding rural agricultural community.

The City has a Mayor-Council-Administrator form of government. There are five members of the City Council; the Mayor and Council Members are elected on an at-large ballot to serve a four-year term on a staggered basis.

The City provides a full range of services including police and fire protection through its combined Public Safety Department, and ambulance services through Johnson County Med-Act; municipal electric, water, and wastewater services; street maintenance, engineering, electric generation, and water and wastewater treatment through its Public Works department; planning, zoning, and codes enforcement; comprehensive parks and recreational activities and facilities; and general administrative services.

The Governmental Accounting Standards Board has established the criteria to determine the financial reporting entity for a municipal government's financial report. This criterion is used to examine the relationship of the City to other associated but legally separate entities to determine if their inclusion in this report would be necessary to fairly present the financial position of the City. This criterion generally has to do with the financial benefit or burden and levels of influence over the activities of these associated, but legally separate, entities.

Using said criterion, it was determined that the City has both a blended component unit and a discretely presented component unit. The blended component unit, although a legally separate entity, is, in substance, part of the City's operations. The blended component unit is the Public Building Corporation (PBC). The discretely presented component unit is the Airport Association, which operates the municipal airport.

Internal Control Structure and Budgetary Controls

Management of the City is responsible for establishing and maintaining internal control designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal requirements of Kansas Statutes. Activities of the General Fund, special revenue funds (unless exempted by a specific statute), enterprise funds, and the Debt Service Fund are included in the annual appropriated budget, as required by Kansas Statutes. Spending in funds which are not

subject to said Statutes are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the City.

As demonstrated by the statements and schedules included in the Financial Section of this report, the City continues to meet its responsibility for sound financial management.

Cash Management

The City has a written investment policy stating the primary objective of safety of principal, followed by liquidity needs, and then rate of return on investments. The policy also requires a collateralization level of 110% of market value of principal and accrued interest, including FDIC.

Risk Management

The City obtains employee health insurance through Mid-America Regional Council Insurance Trust (MARCIT). MARCIT is a public entity self-insurance pool providing workers' compensation, liability, property, health, dental and vision insurance to a membership of more than 70 Missouri and Kansas local governments. Under special agreement with the Kansas Department of Insurance, as permitted by state law, MARCIT offers health, dental and vision coverages to local governments in the five Kansas counties in the greater Kansas City metropolitan area.

The City provides workers' compensation through its membership in the Kansas Eastern Region Insurance Trust (KERIT). KERIT is a group self-insured program that provides workers' compensation benefits to employees of members. The program is designed to provide members a greatly improved loss control program whose purpose is to reduce claims and accidents, aid through sound and equitable claim management practices to reduce costs, and provide the required excess insurance at a discount based on volume and lower risk exposure. In order to raise the level of safety awareness among all employees to keep the annual premiums to KERIT as low as possible, the City has an internal Safety Committee comprised of representatives from all departments. The committee reviews accidents, discusses safety issues, and implements organization-wide safety programs.

Liability, property, and other insurance coverage is purchased from outside sources.

Independent Audit

Kansas Statutes Annotated 75-1122 requires an annual audit of the accounts, financial records, and transaction of all administrative departments of the City by independent certified public accountants. The accounting firm of Berberich Trahan & Co., P.A. was selected by the City Council. The auditor's report on the financial statements is included in the Financial Section of this report.

ECONOMIC CONDITION AND OUTLOOK

Gardner has the highest percentage growth among Kansas communities with a population greater than 10,000 and the 4th highest numeric increase in population among all Kansas communities. With its location on Interstate 35, and on a major rail transit route, and adjacent to New Century AirCenter, a premier multi-modal business park, the City enjoys a unique combination of interstate, air and rail infrastructure.

In 2005, the City annexed an additional 258 acres into its corporate limits, primarily north and east of 167th Street and Waverly Road. Currently, Gardner is approximately 9.1 square miles in size. The City

installed 8.1 miles of new streets, 15.1 miles of new wastewater lines, 5.9 miles of new storm sewer, 7.5 miles of water lines, 9.5 miles of new overhead electric distribution and transmission lines, rebuilt 0.5 miles of electric distribution line, and added 118 new street lights. There are currently 16 subdivisions with housing construction activity. Permits for single family home construction decreased slightly in 2005 to 399 from 443 in 2004.

The City welcomed nearly 1,500 new residents to the community or about 4 new neighbors a day on average. There are approximately 16,200 people who now call Gardner home. This is a 72.4% increase from just five years ago, when the number of Gardner citizens was about 9,396.

As expected, the City experienced significant Commercial growth in 2005. New Century Business Center and Moonlight Commons opened in 2005, providing a diversity of shopping and dining choices. University Business Park construction is underway. The 159,000 sq. ft. Wal-Mart Super Center construction project is nearing completion. On June 7, 2005, voters approved a ½ cent sales tax increase to fund the development of a new community park and the expansion of the City swimming pool. Construction is set to begin on the park complex and pool during the summer of 2006.

All of this growth has contributed to growth in the City's assessed valuation of 69% in the last five years alone. Wealth levels and housing values exceed state averages, and Johnson County's May 2005 unemployment rate at 4.5% was below the state's rate of 4.9%. Additionally, in 2005, the City's sales tax collections increased 8% over 2004.

All of these factors, combined with quality schools, affordable housing, sound management and governing body leadership, and a strong community spirit point to a continued strong economic outlook for years to come.

Major Initiatives

2005 Initiatives

The 2005 Downtown Sidewalk Replacement Project included replacement of sidewalk, addition of benches, landscaping, and water drainage improvements of the entire downtown area.

The City began construction on the electric line extension to the new electric substation No. 3. The substation will improve electrical service to existing customers in northwest Gardner and will provide power for the new development in the area.

The City began expansion of the Hillsdale water treatment facility to double the total capacity from 2 million gallons per day to 4 million gallons per day. Construction began to extend several water mains to join gaps in the existing system and increase pressure and supply to the area north and west of town. The wastewater system began the installation of a new wastewater line from the center of town to the Bull Creek Wastewater Treatment Plant. The new line is being installed to accommodate growth in the southwest portion of Gardner. The East Lift Station Project consisted of removing the old lift station and replacing it with a lift station with the capacity needed for the growth on the eastern side of Gardner.

Engineering work continues on the redesign of the Main and Moonlight Intersection. Major improvements were done to Lincoln Lane on the east side of Moonlight Road. North Center Street construction was completed with the addition of pedestrian pathways and landscaping.

Parks and Recreation highlights include construction on the new eleven-acre Stone Creek Park. The park includes a pedestrian trail, shelter, playground, and ornamental shade trees and native grass. Westside Ballpark received new outfield fencing, infield grading, and some parking lot repair. Playground equipment was replaced at Brookside, Meadowbrook, and Cornerstone Parks. Design of the swimming pool expansion and community park continues. Gardner received its second Tree City USA Award from the National Arbor Day Foundation.

The City purchased 2.25 acres of land for a second Public Safety Station to service southern Gardner. A new Fire Pumper fully equipped with the latest technology was purchased in October 2005.

New positions added in 2005 to better serve Gardner's citizens included: an additional utility customer service representative, parks and recreation customer service representative, administrative assistant for the administration department, electric engineering technician, line maintenance worker, water treatment maintenance worker, parks maintenance worker, streets maintenance worker, water treatment plant operator, three public safety officers, and a staff engineer.

The City's Utility Department implemented automated bank-drafting.

The City acquired eleven acres for a runway protection zone for the Gardner Municipal Airport.

The Gardner-Edgerton school district began construction of its 2nd middle school located in the Northwest portion of the City.

Future/Planned Initiatives

Construction of a new water tower near 159th and Waverly Road will increase storage and improve pressure.

The City plans removal of the approximately fifty year old Bull Creek Wastewater Treatment Plant and conversion to a new lift station to service the south side of town. The wastewater system is adding a new lift station north of town and replacement of 3,000 feet of wastewater lines will eventually flow to the new station.

Design and construction of a new Public Safety Station located south of town will begin early in 2006. The position of a Fire Captain will be added to our Public Safety operation to add more fire specialization within the department.

Construction on the swimming pool expansion is expected to begin in August. The pool will include a lazy river, zero depth entry, waterslides, and much more. The Community Park is proposed to have baseball and softball facilities, soccer and football fields, and add other recreational opportunities such as hiking, biking trails, and fishing. The complex will also have playground equipment and picnic shelters.

Consideration is underway of a proposal presented by Burlington Northern Santa Fe to construct an Intermodal Railway Facility west of town. The status is uncertain at this time.

Financial Planning

The City's electric, water and wastewater funds continue to be self-sufficient and are, in fact, transferring excess funds into the General Fund. In 2005, the utility funds transferred an amount equal to

10% of revenues. In an effort to have all funds truly stand alone in 2006 and future years, the long-term plan is for the utility funds to pay the same dollar amount each year until the transfers are equal to 5% of each individual utility fund's revenues. At that point, this "franchise" fee will remain at 5% of utilities revenue. This approximates the franchise fees that non-government utilities pay to the City for operating within the City.

The City continues to assess its rates in relation to current and future costs. Electric rates were increased an average of seven percent for all rate classes. This is the first step of a recommended 20% increase to be implemented over the next several years.

The City also reviewed the rates for wastewater and water services in 2005. Based on future needs, the wastewater charges were increased 5%. To help offset the impact of that increase to customers, the water fees were concurrently reduced by 5%.

With the rapid growth Gardner is experiencing, building infrastructure for the City's utility systems continue to be a major focus. The City assesses impact fees on new development in keeping with the idea of having new growth pay its own way.

The City will continue to update its costs studies on a bi-annual basis. In addition, the City will continue to perform overall needs assessments on future facilities and rates.

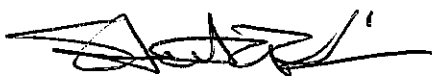
AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officer Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Gardner, Kansas for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2004. This was the first year that the government has received this prestigious award.

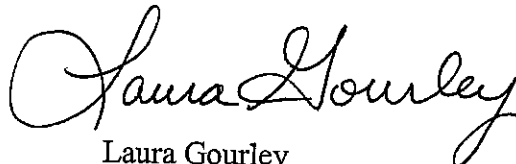
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Greg Kindle of the Southwest Johnson County Economic Development Corporation contributed significantly to the Economic Outlook and Statistical sections of this document. Finance Staff truly appreciates the leadership and support of the Governing Body and Administration in allowing the staff to obtain the training and education needed to continue to excel in providing exceptional service to our citizens.

Sincerely,



Stewart Fairburn
City Administrator

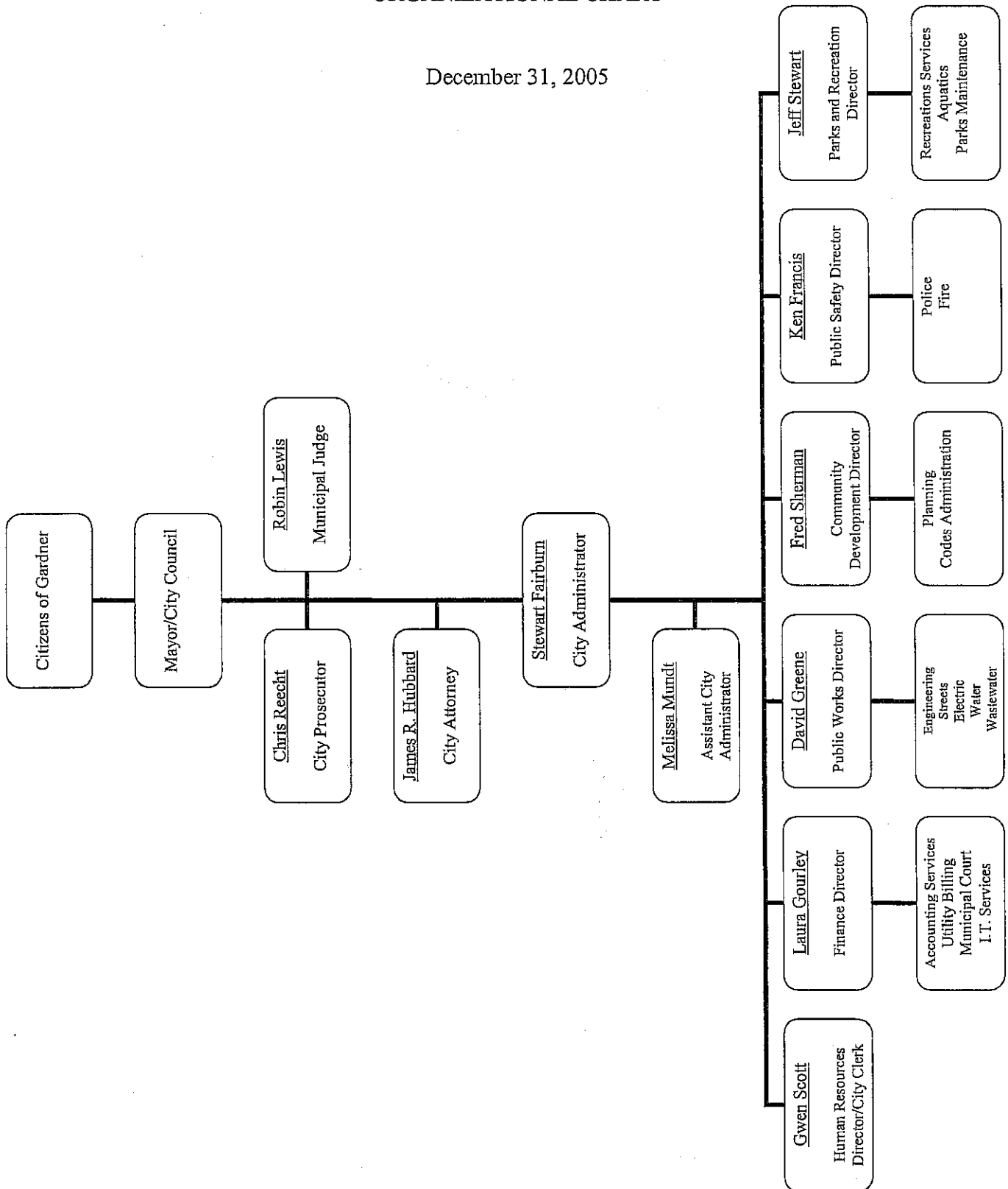


Laura Gourley
Finance Director

CITY OF GARDNER, KANSAS

ORGANIZATIONAL CHART

December 31, 2005



City of Gardner
List of Elected and Appointed Officials
December 31, 2005

Elected Officials

		<u>Term of Office</u>
Mayor	Carol Lehman	2005-2009
Council President	David Drovetta	2003-2007
Council Vice President	Mary Peters	2003-2007
Councilmember	Brad Weisenburger	2003-2007
Councilmember	Celia Duran	2005-2009
Councilmember	John Kirgan	2001-March 2005
Councilmember	Mark Raney	April 2005-2009

Appointed Officials

City Administrator	Stewart Fairburn
Assistant City Administrator	Melissa Mundt
Municipal Judge	Robin Lewis
City Prosecutor	Chris Reece
City Attorney	James R. Hubbard
Human Resources Director/City Clerk	Gwen Scott
Finance Director	Laura Gourley
Public Works Director	David Greene
Community Development Director	Fred Sherman
Public Safety Director	Ken Francis
Parks and Recreation Director	Jeff Stewart

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Gardner,
Kansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carol E. Perry

President

Jeffrey R. Enner

Executive Director



Berberich Trahan & Co.

Certified Public Accountants

3630 SW Burlingame Road
Topeka, KS 66611-2050

Telephone 785 234 3427
Toll Free 800 530 5526
Facsimile 785 233 1768
www.cpaokansas.com

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, City Administrator
and City Council
City of Gardner, Kansas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Kansas (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and applicable provisions of the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. The financial statements of the Airport Association were not audited in accordance with *Government Auditing Standards*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Kansas, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and the street improvement fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 7, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

RSM McGladrey Network

An Independently Owned Member

The Management's Discussion and Analysis on pages 3 through 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Berberich Trahan & Co., P.A.

April 7, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Gardner (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vi of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of 2005 by \$64,405,446 (*net assets*). Of this amount, \$4,723,436 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$8,384,539 from the prior year. A significant portion of this increase was due to "construction in progress," as the City had numerous infrastructure construction projects underway at the close of 2005.
- As of the close of 2005, the City's governmental funds reported combined ending fund balances of \$5,987,868, a decrease of \$1,106,096 from the prior year. While the City experienced an increase of over \$1.39 million in governmental assets during 2005, that increase was offset by an increase in governmental liabilities of \$2.5 million, resulting in a small net decrease in combined governmental fund balances from the prior year. Of the increase in liabilities, \$825,000 was due to temporary notes payable for new infrastructure projects.
- At the end of 2005, the fund balance for the General Fund was \$3,321,238, or 49% of General Fund expenditures.
- In 2005, the City issued \$4,675,000 in general obligation refunding and improvement bonds and \$5,540,000 in bond anticipation notes. The majority of the proceeds of the bonds were for four improvement projects: the construction of North Center Street, the replacement of the old East Lift Station with a new lift station with a larger capacity, and two benefit districts – Kill Creek Drive and Waterline and Kill Creek Sanitary Sewer. With the City's additional financing for its many infrastructure construction projects, the City's long-term liabilities increased \$1.2 million from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's financial report consists of the following parts:

- Management's discussion and analysis;
- The basic financial statements, which include the government-wide and the fund financial statements, along with the notes to the basic financial statements;
- Combining and individual statements and schedules for nonmajor governmental funds
- Statistical section

The basic financial statements of the City include the government-wide financial statements and the fund financial statements. The notes to the financial statements follow the basic financial statements and are essential for the reader's understanding of the financial statements. Other supplementary information, including the statistical section, is also included at the end of this report to provide additional information for the reader.

Government-wide Financial Statements

The government-wide financial statements present the results of the City's operations using the accrual basis of accounting, the basis of accounting used by private-sector businesses. These statements focus on the long-term financial picture of the City as a whole.

The *Statement of Net Assets* reports all of the City's assets and liabilities. Net assets, the difference between assets and liabilities, are an important measure of the City's overall financial health. Over time, the increases and decreases in net assets can be monitored to determine whether the City's financial position is improving or deteriorating.

The *Statement of Activities* shows how the net assets have changed during the fiscal year. The unique feature of this statement is how it shows the revenues and expenses related to specific programs and how much of the programs were supported by the general taxes of the city. Since this statement is prepared on the accrual basis of accounting, all revenues and expenses are included, regardless of when cash is actually received.

Both statements show the operations of the City broken down by governmental activities and business-type activities. Governmental activities are the operations of the City generally supported by taxes, such as public works, public safety, parks and recreation, and general administration. Business-type activities are operations of the City that are intended to recover all or a significant portion of their costs through user fees and charges. These consist of the three utilities the City operates: electric, water, and wastewater.

Fund Financial Statements

The City uses three types of funds to manage its resources: Governmental Funds, Proprietary Funds, and Fiduciary Funds. A fund is a fiscal entity with a set of self-balancing accounts recording financial resources, together with all related liabilities and equity, and the changes therein. These accounting entities are separated for the purpose of carrying on specific activities or attaining certain objectives in accordance with regulations, restrictions, or limitations.

Governmental Fund financial statements are prepared on the modified accrual basis. Under the modified accrual basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred, with the exception of long-term debt and other similar items, which are recorded when due. The focus, therefore, is on the short-term financial picture of the operations reported rather than the City as a whole. Most of the City's basic operations are reported in the Governmental Fund financial statements. The information reported in these statements can be compared to the governmental activities information in the government-wide statements. The reconciliation at the end of the fund financial statements details the relationship between the two types of financial statements.

The City maintains 32 individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund, North Center Street fund, and Street Improvement fund, all of which are considered to be major funds. Data from the other 28 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds fall into two categories: Enterprise Funds and Internal Service Funds. All Proprietary Funds are prepared on the accrual basis of accounting. Enterprise Funds are used to account for business-type transactions. Enterprise Fund statements present the same information that is in the government-wide statements for business activities, only in greater detail. In the government-wide statements, the information for these Enterprise Funds is presented as part of the business-type activities information. Internal Service Funds are used to account for the cost of operations shared by various functions of the City. Currently, the City does not have any Internal Service Funds.

Fiduciary Funds are used by the City to account for resources held by the City for the benefit of a third party. Because the resources of these funds are not available for the City's operations, they are not presented in the government-wide financial statements.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the basic financial statements because they contain valuable additional information necessary for gaining a complete understanding of the City's financial statements.

Other Information

In addition to the financial statements and the notes described above, supplementary information regarding non-major governmental funds has been included to give the reader further information.

ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Analysis of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities (net assets) by \$64,405,446 at the close of 2005. The City's net assets increased by \$8,384,539 from the prior year, with governmental activities accounting for \$3,020,939 of the increase and business-type activities accounting for \$5,363,600 of the increase.

City of Gardner, Kansas Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$23,501,887	\$24,150,586	\$13,722,959	\$22,999,469	\$37,224,846	\$47,150,055
Capital assets	27,879,930	20,673,115	74,185,973	63,196,459	102,065,903	83,869,574
Total assets	51,381,817	44,823,701	87,908,932	86,195,928	139,290,749	131,019,629
Long-term liabilities	14,015,912	11,535,739	34,509,195	35,727,565	48,525,107	47,263,304
Other liabilities	14,637,070	13,805,604	11,723,126	14,007,112	26,360,196	27,812,716
Total liabilities	28,652,982	25,341,343	46,232,321	49,734,677	74,885,303	75,076,020
Net assets:						
Invested in capital assets, net of related debt	14,068,012	9,085,457	37,238,650	26,593,163	51,306,662	35,678,620
Restricted for:						
Debt service	3,079,207	3,564,643	-	-	3,079,207	3,564,643
Streets	4,322,113	3,185,394	-	-	4,322,113	3,185,394
Other purposes	974,028	956,990	-	-	974,028	956,990
Unrestricted	285,475	2,689,874	4,437,961	9,868,088	4,723,436	12,557,962
Total net assets	\$22,728,835	\$19,482,358	\$41,676,611	\$36,461,251	\$64,405,446	\$55,943,609

The largest portion of the City's net assets (80 percent) reflects its investments in capital assets (e.g., land, buildings, infrastructure, construction in progress, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these are not available for future spending.

An additional \$8,375,348 of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of the net assets of \$4,723,436 (\$285,475 governmental activities and \$4,437,961 business-type activities) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

More detailed information, including information on the City's component unit, is presented in the *Statement of Net Assets* on page 17 in the Financial section of this report.

Analysis of Changes in Net Assets.

As stated earlier, the City's net assets increased by \$8,384,539 during the 2005 fiscal year. The following table reflects the revenues and expenses for the City's activities for the year ended December 31, 2005, and illustrates the comparison between 2005 and the prior year:

City of Gardner, Kansas Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for services	\$1,799,986	\$1,676,026	\$17,398,689	\$15,032,772	\$19,198,675	\$16,708,798
Operating grants and contributions	2,139,253	2,352,704	-	-	2,139,253	2,352,704
Capital grants and contributions	1,087,882	2,817,443	50,000	-	1,137,882	2,817,443
General Revenues:						
Property taxes	2,311,209	2,030,664	-	-	2,311,209	2,030,664
Sales taxes	1,566,055	1,483,480	-	-	1,566,055	1,483,480
Franchise taxes	337,916	305,843	-	-	337,916	305,843
Excise taxes	1,455,739	1,211,458	-	-	1,455,739	1,211,458
Transient guest tax	34,338	31,150	-	-	34,338	31,150
Unrestricted investment earnings	497,681	181,268	532,024	205,001	1,029,705	386,269
Total revenues	<u>11,230,059</u>	<u>12,090,036</u>	<u>17,980,713</u>	<u>15,237,773</u>	<u>29,210,772</u>	<u>27,327,809</u>
Expenses:						
General government	2,487,540	2,481,063	-	-	2,487,540	2,481,063
Public safety	2,133,175	1,793,104	-	-	2,133,175	1,793,104
Public works	1,814,204	2,702,878	-	-	1,814,204	2,702,878
Culture and recreation	1,191,341	1,008,522	-	-	1,191,341	1,008,522
Interest on long-term debt	912,018	679,071	-	-	912,018	679,071
Electric	-	-	7,065,972	5,235,673	7,065,972	5,235,673
Water	-	-	2,045,852	1,809,446	2,045,852	1,809,446
Wastewater	-	-	3,176,131	2,980,535	3,176,131	2,980,535
Total expenses	<u>8,536,278</u>	<u>8,664,638</u>	<u>12,287,955</u>	<u>10,025,654</u>	<u>20,826,233</u>	<u>18,690,292</u>
Increase in net assets before transfers	2,691,781	3,425,398	5,692,758	5,212,119	8,384,539	8,637,517
Transfers	<u>329,158</u>	<u>989,891</u>	<u>(329,158)</u>	<u>(989,891)</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>3,020,939</u>	<u>4,415,289</u>	<u>5,363,600</u>	<u>4,222,228</u>	<u>8,384,539</u>	<u>8,637,517</u>
Net assets, Jan 1, as previously stated	19,482,358	16,328,080	36,461,251	31,244,209	55,943,609	47,572,289
Prior period adjustment	<u>225,538</u>	<u>(1,261,011)</u>	<u>(148,240)</u>	<u>994,814</u>	<u>77,298</u>	<u>(266,197)</u>
Net assets, Jan 1, as restated	<u>19,707,896</u>	<u>15,067,069</u>	<u>36,313,011</u>	<u>32,239,023</u>	<u>56,020,907</u>	<u>47,306,092</u>
Net Assets, Dec 31	<u>\$22,728,835</u>	<u>\$19,482,358</u>	<u>\$41,676,611</u>	<u>\$36,461,251</u>	<u>\$64,405,446</u>	<u>\$55,943,609</u>

More detailed information, including information on the City's component unit, can be found in the *Statement of Activities* on page 18 of the Financial section of this report.

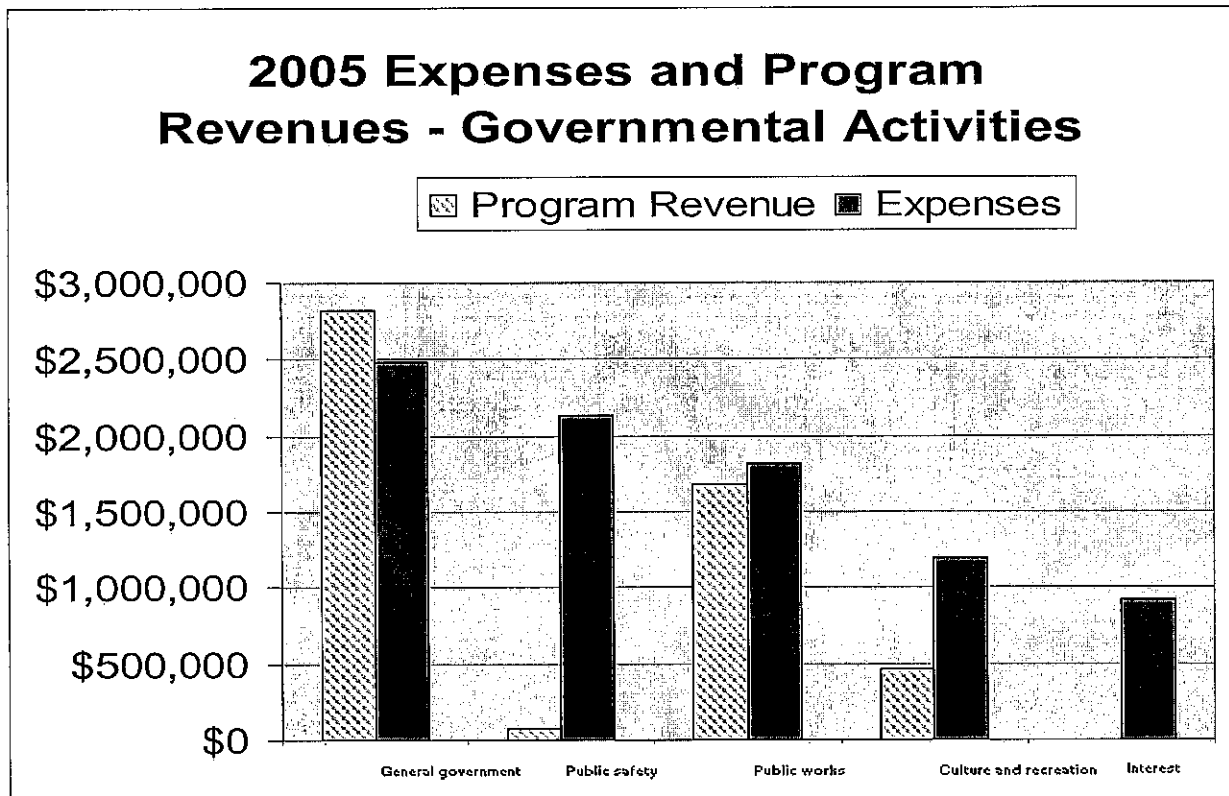
Governmental Activities

Governmental activities accounted for \$3,020,939, or 36%, of the increase in the City's net assets since the prior year. The increase in net assets is primarily a result of the City's rapid growth.

Governmental revenues decreased by \$859,977 or 7.1% from the prior year. Key components in this decrease were a 61.4% decrease in capital grants and contributions, offset by a 20.2% increase in excise taxes, 13.8% increase in property taxes, 5.6% increase in sales taxes, and the negotiation of a new banking contract resulting in a 174.5% increase in investment revenue (nearly \$316,413). The significant decrease in capital grants and contributions is due to a 2004 special assessment revenue recognition of \$2,088,908.

Governmental expenses remained constant, decreasing \$126,360 from the prior year.

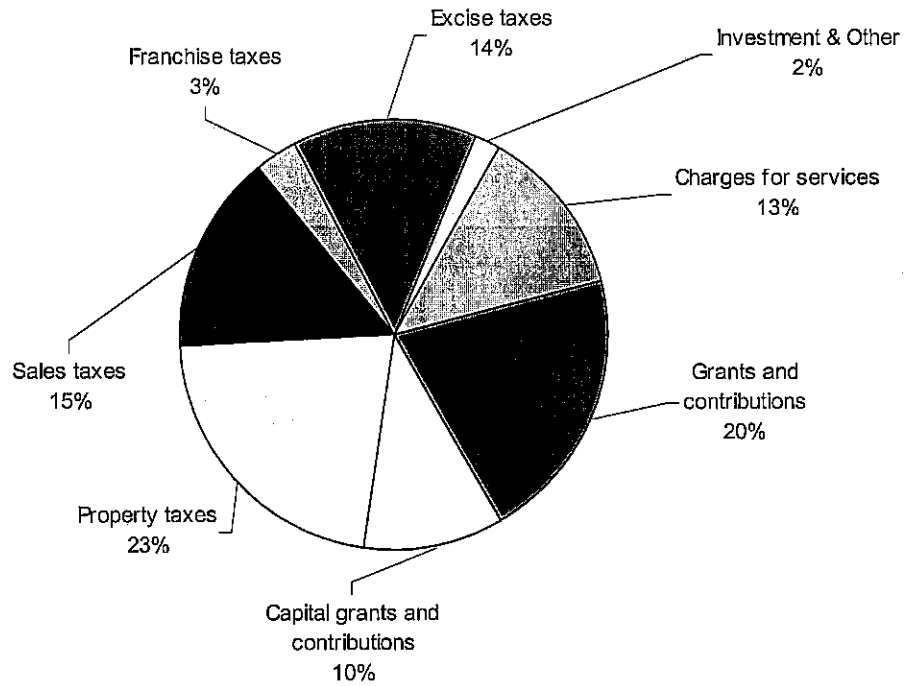
The chart below illustrates how the City's various governmental activities program revenues vs. program expenses fared in 2005.



General government program revenues include the amount of building permit and related inspection fees received during the year. Public Works program revenues include grant revenue from the Johnson County CARS program for the North Center Street project.

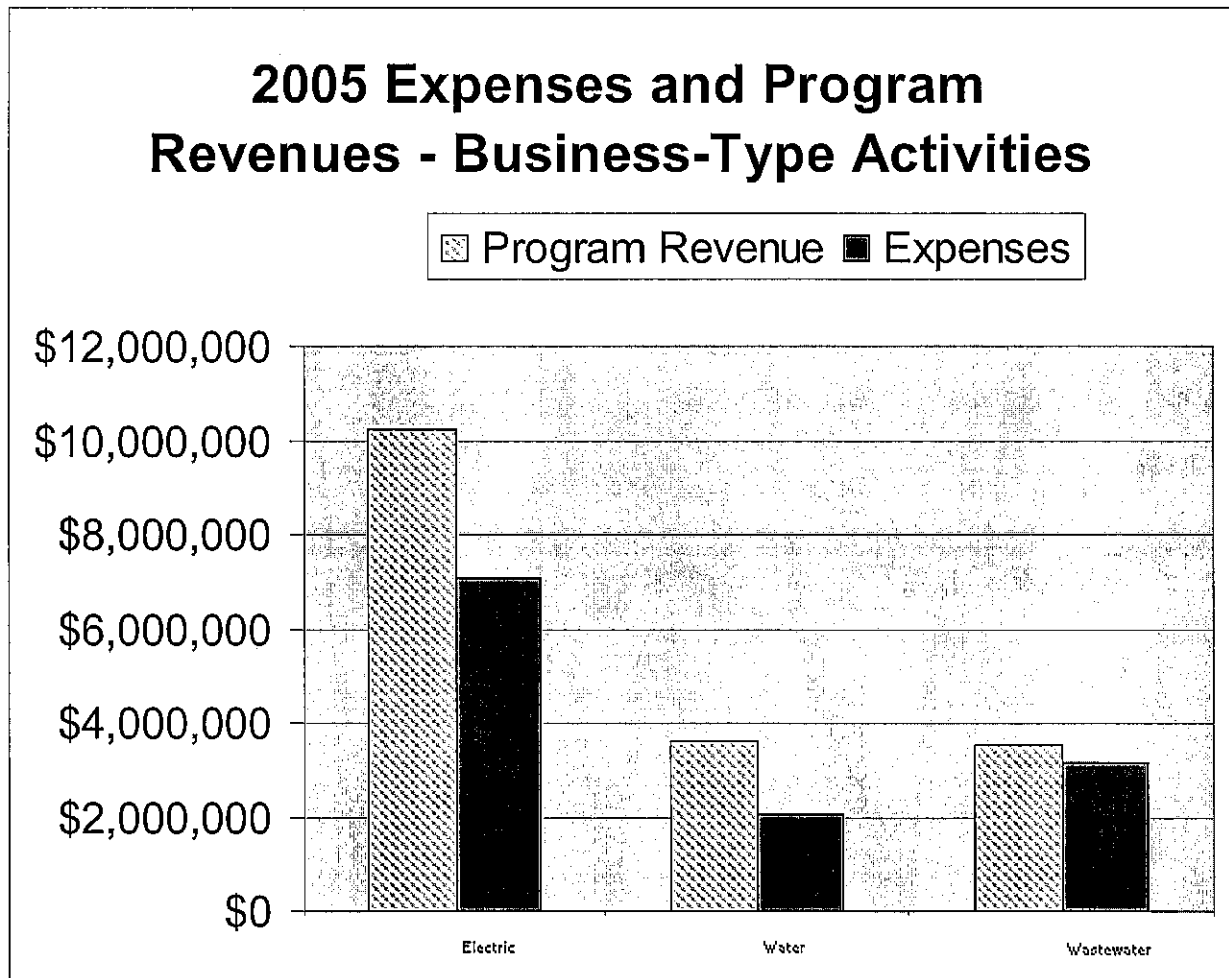
Overall program and general revenues for the City's governmental activities are:

Revenues by Source - Governmental Activities

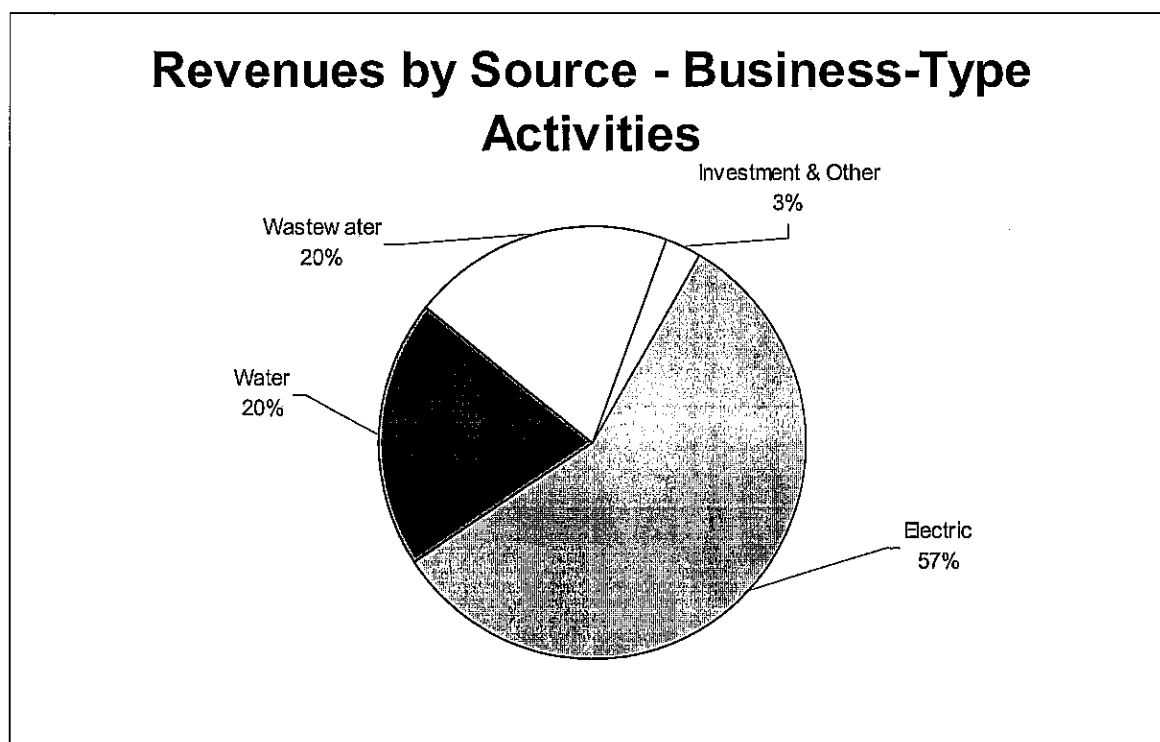


Business Type Activities

Business-type activities increased the City's net assets by \$5,363,600, or 64%. The program revenues vs. program expenses for business-type activities chart below illustrates an overall increase in net assets for all business-type activities.



Overall program and general revenues for the City's business type activities are:



FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of 2005, the City's governmental funds reported combined ending fund balances of \$5,987,868, a decrease of \$1,106,096, or 15.6%, in comparison with the prior year. This decrease can be attributed to the City's numerous capital projects that are not yet debt financed and are being paid for with cash. One hundred percent of the combined ending fund balances amount constitutes unreserved fund balance. The unreserved fund balance of \$5,987,868 represents 34% of total governmental fund expenditures of \$17,488,758.

The General Fund is the chief operating fund of the City. At the end of 2005, the unreserved fund balance of the General Fund was \$3,321,238. Unreserved fund balance represents 49% of total General Fund expenditures of \$6,746,644. This year's unreserved fund balance represents an increase of \$929,067 over the previous year's balance. This increase is generally accredited to the growth in the number of consumers and citizens in the City. This growth subsequently increases the number of building permits and fees the City receives, as well as an increase in sales and property taxes.

The Debt Service Fund has a total fund balance of \$258,152. This is a decrease of \$55,473 from the previous year. This fund will vary on a year-to-year basis.

The Street Improvement Fund has a total fund balance of \$4,322,113. This is an increase of \$1,136,719 from the previous year. This fund will also vary on a year-to-year basis.

Although North Center Street fulfills the criteria to be considered a major governmental fund because of its large expenditures, this capital project will be completed at the end of 2006.

Proprietary funds

The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail. More information can be found on pages 27-30 in the Financial section of this report.

Unrestricted net assets for the business-type activities at the end of 2005 amounted to \$4,437,961, a decrease of \$5,430,127, or 55%, from the previous year.

The Electric Fund had total net assets of \$20,904,149 at the end of 2005. This is an increase of \$2,613,219 from the previous year. Key components of this increase include an increase in retail sales of approximately \$2,353,204 and the increase of investment earnings of \$145,254.

The Water Fund had total net assets of \$12,598,814 at the end of 2005. This is an increase of \$2,007,841 from the previous year. This is partially attributable to a combination of an increase in investment earnings of \$78,463 and the reporting of capital contributions of \$598,811, which represents water infrastructure in the City's multiple benefit districts that belong to the Water Fund.

The Wastewater Fund had total net assets of \$8,173,648 at the end of 2005. This is an increase of \$742,540 from the previous year. Key components of this increase include an increase in retail sales of \$98,773, an increase in investment earnings of \$103,306, and the reporting of capital contributions of \$503,084, which represents sewer infrastructure in the City's multiple benefit districts that belong to the Sewer Fund.

Fiduciary funds

The City maintains a fiduciary fund for the assets of the Alcohol Safety Action Program. This fund accounts for the amount collected from municipal court to be remitted to the State of Kansas. At the end of 2005, the assets of the fund were \$21,713.

GENERAL FUND BUDGETARY HIGHLIGHTS:

There was no difference between the original budget and the final budget. During the year, however, total revenues were more than budgetary estimates by \$929,640, or 16%. A summary of significant differences between budgetary estimates for revenue and actual collections is as follows:

- Charges for services exceeded revenue estimates by \$249,879, or 144%. \$243,500 was a one time 5% administrative fee charged to the City's new benefit district funds to offset the administrative costs of setting up the benefit district.
- Sales tax exceeded the revenue estimate by \$146,055, or 10%. In 2004, Kansas enacted a destination-based system for sales tax collection, and this excess may be due to the new system; however, it is too early to reach that conclusion. More information regarding the City's sales tax collections can be found in the Statistical section of this report.
- Intergovernmental revenues exceeded the estimate by \$145,952, or 13%. The majority of this increase is due to the collection of County sales tax. As discussed above, the increase may be due to a new destination-based collection system enacted by the State of Kansas.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2005, amounted to \$102,065,903 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, roads, water lines, sewer collectors and electric lines. The total increase in the City's investment in capital assets for 2005 was 21.7% (a 34.9% increase for governmental activities and a 17.4% increase for business-type activities).

City of Gardner's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$2,279,848	\$1,410,254	\$2,023,632	\$1,741,276	\$4,303,480	\$3,151,530
Construction in progress	3,133,045	2,761,364	11,833,535	3,611,698	14,966,580	6,373,062
Buildings	4,113,865	4,221,936	-	-	4,113,865	4,221,936
Improvements	1,145,668	1,081,604	-	-	1,145,668	1,081,604
Infrastructure	15,634,388	9,872,905	59,661,915	57,251,637	75,296,303	67,124,542
Machinery and equipment	821,751	809,552	211,127	248,142	1,032,878	1,057,694
Vehicles	751,365	515,500	455,764	343,706	1,207,129	859,206
	<u>\$27,879,930</u>	<u>\$20,673,115</u>	<u>\$74,185,973</u>	<u>\$63,196,459</u>	<u>\$102,065,903</u>	<u>\$83,869,574</u>

The majority of the City's increase in capital assets can be attributed to construction in progress. Some of the major construction projects include:

- North Center Street improvements
- Construction of an additional electrical substation to serve new development
- Construction of additional wastewater infrastructure projects to serve new development
- Engineering and design services for the relocation and pending construction of one of the City's major intersections at Moonlight and Main
- Five business park benefit districts containing multiple infrastructure projects for streets, water, wastewater and electrical services: Moonlight Business Park, Shean's Crossing, Kill Creek, New Century, and University Park.
- Hillsdale Water Treatment Plant expansion

Additional information on the City's capital assets can be found in Note 6 of this report.

Long-Term Debt

At the end of 2005, the City had total long-term debt outstanding of \$48,310,710. Of this amount, \$22,340,000 was general obligation debt backed by the full faith and credit of the City. However, \$15,466,600 (69%) of the general obligation debt is supported by business-type revenues. Another \$3,035,000 of the City's long-term debt outstanding is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment.

In 2002, The City entered into an irrevocable lease agreement with the Public Building Commission (PBC), a separate, not-for-profit corporation formed for the sole purpose of financing the remodeling and enlarging of City Hall. The purpose of the lease agreement is for the City to rent the building financed by the PBC Lease Revenue bonds. The rental payments are the same as the scheduled debt payments, and because the lease is irrevocable, the City is liable for the associated revenue bonds.

City of Gardner's Long-Term Debt
December 31, 2005

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General obligation bonds	\$6,873,400	\$4,129,800	\$15,466,600	\$16,025,200	\$22,340,000	\$20,155,000
Special assessment debt with government commitment	3,035,000	3,200,000	-	-	3,035,000	3,200,000
PBC revenue bonds	3,905,000	3,960,000	-	-	3,905,000	3,960,000
Construction loan payable	-	-	18,976,298	19,643,931	18,976,298	19,643,931
Capital lease obligations	54,412	94,749	-	-	54,412	94,749
	<u>\$13,867,812</u>	<u>\$11,384,549</u>	<u>\$34,442,898</u>	<u>\$35,669,131</u>	<u>\$48,310,710</u>	<u>\$47,053,680</u>

More detailed information about the City's long-term debt is presented in Note 11 to the basic financial statements and information regarding the bond anticipation notes in Note 12.

Kansas statutes limit the amount of general obligation debt (exclusive of revenue, utility and refunding bonds) a City may have outstanding to 30% of its total assessed valuation of property, including motor vehicles. At the end of 2005, the statutory debt limit for the City was \$33,798,595, which is significantly in excess of the City's outstanding governmental activities obligation debt. More information on the City's legal debt margin can be found in Note 11 to the basic financial statements and a comparison of the City's debt margin between 1995 and 2005 can be found in the Statistical section.

ECONOMIC FACTORS

The City expects to see continuing healthy growth to the tax base. Located in Johnson County along Interstate 35, about 30 miles southwest of downtown Kansas City, MO, Gardner has benefited from its location near the Kansas City Metro Area. This has contributed to growth in the City's assessed valuation of 69% in the last five years alone. More detailed information can be found in the Statistical section regarding the City's growth in valuation and its construction boom.

In addition, the 2000 census indicates considerable population growth of 192% since 1990, and the City is estimating an additional population growth of 1,500 residents each year to its current population of over 16,000. Wealth levels and housing values exceed state averages, and Johnson County's May 2005 unemployment rate at 4.5% was slightly below the state's rate of 4.9%. More information regarding the City's demographics can be found in the Statistical section.

The City maintains an A2 rating from Moody's Investors Service. Moody's believes the City's continued rapid growth may place pressure on the City's financial operations, causing increases in expenditures, but that demonstrated prudent management practices and additional revenues generated from the growth in property taxes should mitigate this effect. More information regarding property taxes can be found in the Statistical section.

Moody's does note that there is some vulnerability in that city and countywide sales tax receipts account for approximately 20% of the city's operating revenues. In 2005, sales tax growth increased 11% over the prior year, and city officials anticipate continued growth due to the many businesses currently under construction in the City's new business parks, and the opening of Wal-Mart (currently under construction) in 2006. The city's General Fund balance has grown steadily in recent years, from \$665,346 in 2001 to \$3,321,238 in 2005 or 49% of General Fund revenues, which exceeds the state median of 26% for Kansas cities. Despite Gardner's consistent growth in sales tax receipts, Moody's believes the importance of retaining sound reserves is important, given the economically sensitive nature of this revenue stream. More information regarding sales taxes can be found in the Statistical section.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Finance Department, 120 East Main, Gardner, Kansas 66030.